

KINGS COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE

DECEMBER 1997

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee who is usually but not always the owner, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the Board's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Kings County Assessor's Office was completed by County Property Tax Division staff during August of 1996. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable George J. Misner, King County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William Jackson, Chief
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December 1997

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TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS	1
A. Introduction	1
B. Summary	2
1. Overview of the Kings County Assessment Roll	3
2. Budget and Workload.....	3
C. Recommendations and Suggestions	5
II. REAL PROPERTY VALUATION AND ASSESSMENT	8
A. The Appraisal Program	8
1. Change of Ownership.....	8
a. Overview	8
b. Legal Entity Ownership Program (LEOP)	9
c. Improvement Bonds	9
2. New Construction.....	10
a. Sampling Results.....	10
b. Valuation of Subdivision Lots.....	11
c. Self-Reported New Construction	12
d. Entrepreneurial Profit.....	13
e. Building Permit Processing.....	13
f. Tenant Improvements.....	14
g. Interest on Construction Funds.....	14
h. Escaped New Construction	15
3. Declines in Value	16
4. Assessment Appeals.....	16
B. Special Property Types and Procedures	18
1. California Land Conservation Act	18
2. Taxable Government-Owned Property.....	23
3. Possessory Interests	24
4. Water Companies	27
5. Property Damaged by Misfortune or Calamity	29
6. Low-Valued Property Exemption.....	30
III. PERSONAL PROPERTY VALUATION AND ASSESSMENT	31
A. Introduction	31
B. Audit Program	32
1. Audit Topics.....	32
2. Audit Checklist.....	32
C. Business Property Valuation	33
1. Estimated Assessments	33
2. Equipment Index Factors.....	33
3. Authorized Signatures	34

TABLE OF CONTENTS
(continued)

4.	Property Statements.....	34
D.	Non-Business Property Valuation	35
1.	Vessel Valuation	35
2.	Aircraft	35
3.	Manufactured Housing.....	36
APPENDIX		
	The Assessment Sampling Program.....	40

I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

" . . . (a) make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. . . (c) the survey may include a sampling of assessments from the local assessment rolls. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the County Property Tax Division (CPTD).

This report is the culmination of a review of the Kings County Assessor's operation that began with CPTD staff's appraisals of properties selected on the basis of assessment category and assessed value. The survey team members analyze the results of the assessment sampling, then examine current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. Finally, we offer positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Kings County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Kings County Assessor's Office by the Board's County Property Tax Division.

This survey was conducted according to the method mandated by section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

Revenue and Taxation Code section 75.60 requires that the Board certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level of 95 percent or higher as determined by the Board through its assessment sampling program.

Based upon our current assessment sampling, the Board certified Kings County as an eligible county. This indicates that its assessment program is substantially in compliance with the law. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under-or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

B. SUMMARY

In our 1991 survey report, we made 15 recommendations for changes to the assessor's real and personal property assessment programs. While not all of these recommendations have been implemented, the assessor has implemented those recommendations that he agrees with or that have a material fiscal impact on county revenues. The assessor believes that he has achieved the same result with his existing approach or with a new approach that differed from what we recommended.

The assessor's office continues to find new, innovative and cost effective methods to collect and analyze the data needed to perform required functions and to provide appropriate information and services to other county offices and the public at a reasonable cost. The assessor has invested considerable effort in establishing computer assisted processes with "off-the-shelf" products.

Kings County currently has a fully operational GIS system within the assessor's office and all assessor's maps have been digitized. Each parcel, on the digitized maps, is an individual polygon that can be linked to any data files that are created in a Windows format. In the future data will imported from their "Proval" mass appraisal system which will allow improvement drawings and data to be imported to the mapping system for analysis. Currently, this system provides the ability to overlay line maps on to satellite photos, allowing recognition and comparison of physical characteristics and other data associated with a parcel. The combination of these two systems will allow the assessor's office to analyze area market value

trends by graphically plotting and identifying sales. It has already been used in agricultural preserve analysis, providing timely graphical and data information used to identify areas with common rents and expenses.

Assessor information, on the county's mainframe computer, is fed to the mapping system over a local area network on a daily basis. Access to this information in both data and graphical format has helped provide quick and simple solutions to everyday appraisal problems. The system also generates mailing labels by data types allowing creation and mass mailing of questionnaires for agricultural preserve, construction completion, homeowners' exemption changes, transfer of ownership questions or any of a number of selection criteria that may be beneficial to efficient and cost effective operation.

Kings County also has its own telephone dial-up service providing public access to assessor's files, tax collector data, auditor data, recorders index, and court calendars. This is all under the control of the assessor's office which maintains the system and collects the fees.

Notwithstanding these improvements, we believe by implementing our recommendations and suggestions the assessor will have a more efficient operation and it will bring him into better compliance with property tax laws, rules and regulations.

1. Overview of the Kings County Assessment Roll

CPTD's field appraisal team completed appraisals of 289 properties of all types assessed on the 1992-93 Kings County assessment roll. The roll contained a total of 40,736 assessments having a total enrolled value of \$3,216,449,123. (For a detailed explanation of CPTD's sampling program, see Appendix A at the end of this report.)

Sampling data indicated that the roll was composed by property type as follows:

<u>Property Type</u>	<u>No. of Assessments in County</u>	<u>Enrolled Value</u>
Residential	20,930	\$1,218,305,076
Rural	13,647	1,018,795,295
Commercial-Industrial	4,003	963,554,729
Miscellaneous	<u>2,156</u>	<u>15,794,023</u>
Total	40,736	\$3,216,449,123

2. Budget and Workload

The following presentation utilizes data from the State Board of Equalization's Annual Reports and data compiled in the Board's Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices.

The purpose of the presentation is to compare Kings County Assessor's Office with other counties that have similar assessment issues. We caution the reader that the budget

and staffing of the Kings County Assessor's Office, or that of its comparable counties, is not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, roll values, net budget, and staffing. No two counties are exactly alike, and a variety of factors can greatly affect individual budget and workload comparisons. For this presentation we chose counties with similar types of economies, i.e. predominantly agriculture.

Roll Value Increases

Since the 1990-91 roll year, the total roll in Kings County (all state and locally assessed value minus all exemptions) has increased as follows:

<u>Year</u>	<u>Total Roll Value</u>	<u>Increase</u>	<u>Statewide Increase</u>
1990-91	\$3,064,799,000	N/A	N/A
1991-92	\$3,223,324,000	5.17%	8.16%
1992-93	\$3,480,708,000	7.99%	5.18%
1993-94	\$3,604,494,000	3.56%	2.80%
1994-95	\$3,748,087,000	3.98%	1.27%

Source: State Board of Equalization's Annual Reports.

Workload Comparison by Staff and Roll Units

<u>County</u>	<u>Total Staff</u>	<u>Valuation Staff</u>	<u>Total Roll Units</u>	<u>Roll Units Per All Staff</u>	<u>Roll Units Per Valuation Staff</u>
KINGS	20.00	10.0	43,283	2,164	4,328
YOLO	25.00	9.0	52,536	2,101	5,837
MERCED	31.00	14.0	69,392	2,238	4,957
MADERA	32.00	16.0	52,105	1,628	3,256
NAPA	22.50	10.0	51,398	2,284	5,140
SUTTER	21.00	9.0	35,428	1,687	3,936

Total Budget and Roll Value Comparison

<u>County</u>	<u>Total Staff</u>	<u>Total Budget</u>	<u>Budget Per Staff Member</u>	<u>Total Roll Value¹</u>	<u>Roll Value Per Staff²</u>
KINGS	20.00	\$1,079,338	\$53,967	\$3.8	\$190
YOLO	25.00	\$1,146,428	\$45,857	\$2.2	\$102
MERCED	31.00	\$ 813,562	\$58,502	\$2.6	\$168
MADERA	32.00	\$ 921,448	\$28,795	\$3.2	\$229
NAPA	22.50	\$1,006,383	\$44,728	\$2.3	\$153
SUTTER	21.00	\$ 891,029	\$42,430	\$3.7	\$176

C. RECOMMENDATIONS AND SUGGESTIONS

¹ \$ amounts in billions.

² \$ amounts in millions

This report contains both suggestions and recommendations for improvements to the operation of the Kings County Assessor's Office. Our suggestions address existing practices which merit improvement.. Recommendations are reserved for situations where one or more of the following conditions exist:

- (1) Property tax legal requirements or taxpayers' rights are being violated;
- (2) Existing practices are producing property tax revenues different from the level required by law; or
- (3) Existing appraisal practices do not conform to generally accepted appraisal theory.

Following is a summary of our formal recommendations and suggestions, arrayed in the order presented in this report, with parenthetical references to the page locations.

RECOMMENDATIONS

- RECOMMENDATION 1: Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bond Acts. (Page 10)
- RECOMMENDATION 2: Assess landscaping as new construction on newly constructed and transferred properties. (Page 10)
- RECOMMENDATION 3: Assess subdivision development costs and implement valuation procedures for subdivision lots as outlined in Letter to Assessors No. 84/51. (Page 11)
- RECOMMENDATION 4: Insure that construction period interest is included when appraising large commercial and industrial properties by the replacement cost method. (Page 15)
- RECOMMENDATION 5: Enroll supplemental and escape assessments for all applicable years allowed under the statute of limitations. (Page 15)
- RECOMMENDATION 6: Revise selected procedures for assessing California Land Conservation Act Properties by: (1) using typical or actual crop rotation practices when calculating crop income; (2) deducting from gross rent all expenses that are paid by the lessor and deduct a capital replacement charge for irrigation wells that contribute to the income; (3) revising assessments of living improvements by: (a) recognizing that pistachio trees do not reach mature production until age 20; and (b) using the straight-line declining income premise when capitalizing income from pistachio orchards with tree root stock susceptible to Verticillium Wilt. (Page 19)
- RECOMMENDATION 7: Review and assess all government owned properties which lie outside their boundaries. (Page 23)
- RECOMMENDATION 8: Revise possessory interests assessments by: (1) allocating value to both land and improvements; (2) not allowing a veteran's organization exemption unless a claim is filed and properly

processed; (3) ascertaining the accessibility of all possessory interests at the fairgrounds; (4) reviewing the procedures used for a negative assessment for the termination of a possessory interest.
(Page 26)

- RECOMMENDATION 9: Use the equipment index factors recommended in Assessors' Handbook section 581. (Page 33)
- RECOMMENDATION 10: Screen property statements more closely for proper signatures; reject those that do not meet regulatory requirements. (Page 34)
- RECOMMENDATION 11: Obtain Board approval for all property statements; apply non-filing penalties only when using Board prescribed forms. (Page 34)
- RECOMMENDATION 12: Annually appraise pleasure boats at market value. (Page 35)
- RECOMMENDATION 13: Annually appraise aircraft at market value and make engine hour adjustments when appraising private aircraft. (Page 36)
- RECOMMENDATION 14: Properly classify manufactured homes on the assessment roll and enroll supplemental assessments for manufactured homes when appropriate. (Page 38)

SUGGESTIONS

- SUGGESTION 1: Implement a tax reporting program for certain new construction. (Page 12)
- SUGGESTION 2: Consider entrepreneurial profit when valuing commercial and industrial new construction by the cost approach. (Page 13)
- SUGGESTION 3: Increase risk component in the CLCA capitalization rate for properties with uncertain water deliveries. (Page 20)
- SUGGESTION 4: Revise dry grazing land procedures as outlined in Assessors' Handbook section 521; revise the Agricultural Preserve Questionnaire. (Page 22)
- SUGGESTION 5: Consider the effect of rate regulation on the taxable value of the privately owned regulated water company. (Page 28)
- SUGGESTION 6: Review the assessment of the mutual water company. (Page 28)
- SUGGESTION 7: Obtain fire reports on a regular basis from all fire departments within the county. (Page 29)
- SUGGESTION 8: Request the county board of supervisors adopt a resolution to exempt low-valued property. (Page 30)
- SUGGESTION 9: Review supplies as part of every audit. (Page 32)
- SUGGESTION 10: Require the use of an audit checklist in every audit. (Page 32)
- SUGGESTION 11: Audit or visit taxpayers who fail to file business property statements for three or more consecutive years. (Page 33)
- SUGGESTION 12: Field check all aircraft for which taxpayers request a reduction in value.
(Page 36)

SUGGESTION 13: Send a new construction questionnaire to all new manufactured home owners for identification of taxable accessories not included in dealers' sales reports. (Page 37)

II. REAL PROPERTY ASSESSMENT

A. THE APPRAISAL PROGRAM

1. Change of Ownership

a. Overview

Our sample survey of the 1992-93 assessment roll contained 61 sample items that were classified as change in ownership, 28 showed minor to significant differences between the County Property Tax Division's (CPTD) appraised values and the county's taxable values. Most of the samples with differences involved problems with new construction and business property valuations (business property is covered in another section of this report). There were only six sample items showing differences pertaining to the valuation of transferred properties; in two of these cases, the assessor's values were higher than the CPTD's appraised values. Four transferred properties had assessed values lower than the CPTD's values. Appraisal valuation differences between the county and the CPTD involved appraisers' disagreements (professional differences in opinions of value) regarding the values of certain properties and do not indicate any particular weakness in the Kings County Assessor's change in ownership program.

In our 1992 assessment practices survey, we recommended that the assessor correctly apply the penalty for failure to timely file a Change in Ownership Statement. The assessor immediately implemented this recommendation. This was the only recommendation regarding the change in ownership program in the 1992 survey.

There were 2,678 transfers requiring reappraisal in Kings County for the 1996 assessment roll, and 2,568 for the 1995 roll. Transfer processing was discussed in our 1992 survey report. Procedures followed by Kings County staff are explained in the assessor's procedures manual. We randomly reviewed appraisal records on several parcels which transferred in recent years. The appraisal records are well documented and generally include three comparable sales.

One change in ownership we reviewed was a large ownership with holdings in Fresno, Kings, and Tulare counties, which was sold in early 1995. This sale consisted of 22,800 plus acres and 194 assessor parcels transferring in Kings County. We reviewed the county's appraisal and value allocations to various parcels included in this transfer and concluded without actually field reviewing the property that the county's appraisal and value allocations to the various parcels were proper. Also, partial interest transfers we reviewed were properly processed.

All data concerning change in ownership are entered in the mainframe computer by category, e. g., vacant lots / rural homesites, single family residential , multi-residential / condominiums, agricultural sales by acreage and parcel number, commercial/ industrial, etc. We consider this automated sales listing program very comprehensive. We recommend that other counties interested in upgrading their sales programs look at the Kings County Assessor's program.

b. Legal Entity Ownership Program (LEOP)

The Board's Policy, Planning and Standards Division's (PPSD) transmits to each county a listing, with corresponding property schedules, of legal entities that have reported to PPSP that a change in control of the entity has occurred. Each of the reported changes in control transactions are investigated and verified by PPSP. The report includes the names of acquiring entities, the date stocks or partnership interest transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

Not all of the acquiring entities are able to provide all of the necessary detailed information. Often omitted is the name of the county where the property is located, the assessor's parcel identification number, or the number of parcels owned by the entity. Because of questionable accuracy of the data provided by the entities, PPSP has advised the county's appraisal staff to thoroughly research the named entity's holdings to determine that all affected parcels are identified and properly assessed.

In Kings County the assistant assessor reviews the list of corporate transfers that PPSP provides the assessors. We reviewed the appraisal records of properties listed in the PPSP-LEOP reports transmitted to the Kings County Assessor's Office for the time period January 1992 to July 1996. We found only two property transfers the county had not processed before being notified by PPSP. Once notified, the county's appraisal staff reappraised these two properties in a timely manner.

c. Improvement Bonds

Improvement bonds are a form of public financing used to finance construction of municipal improvements that also enhance the value of privately owned real property. Examples of such improvements are sewers, sidewalks, lighting, and water lines. Bonds issued under the 1911 Bond Act, 1913 Bond Act, and 1915 Bond Act are first liens against property. A bond can be subordinated only to a previously issued bond. The assessor is required, pursuant to Property Tax Rule 4 (b), to appraise such property by adding the present value of the bond debt to the nominal sales price of the property.

Section 163 of the Revenue and Taxation Code was enacted to require any entity that receives revenue from an assessment lien created by one of these bonds to annually notify the assessor of all of the following:

- (a) The lien amount on each subject parcel at the time the lien was created.
- (b) In the case in which a lien has been completely satisfied, the date and amount of payment in satisfaction of the lien, and the identity of the person that made that payment.
- (c) The amount of the principal balance of the lien on each subject parcel.

This legislation became effective on January 1, 1996. The Kings County Auditor-Controller's office had not yet notified the assessor on bond information regarding (a), (b), and (c) at the time we completed our field work.

RECOMMENDATION 1: Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bond Acts.

Records we obtained from the Auditor-Controller's Office show that there are 13 different 1911, 1913, and 1915 Bond Acts with outstanding assessment bond issues in Kings County that have financed the construction of various improvements such as domestic water, drainage, and sewer systems.

The Kings County Assessor's staff informed us that they were not adding bond indebtedness to the nominal selling price of real property. We reviewed sales of properties encumbered with these bond issues to verify the information. Most involved small balances of between \$325 to \$750; the amount was not added to the assessed value. One property with several old, low-value manufactured homes had a bonded indebtedness of \$15,960 and a nominal sale price of \$186,500; the county valued the real property at \$71,000 with no adjustment to the nominal sale price for the bonds. Even though the present value of these bonds is not material to the assessed value of the property, we recommend that the assessor's staff identify transferred properties encumbered with improvement bonds and adjust the nominal selling prices by adding the cash equivalent of the bond payment amounts remaining at the time of sale.

2. New Construction

a. Sampling Results

Our sampling of the 1992-93 Kings County assessment roll included 45 items that were identified as "construction." In 23 of these items, there were value differences attributable to disparities in the handling of new construction. Of these 23 samples, CPTD staff's appraised values were higher than the enrolled values in 22 cases, and only in one case was CPTD staff's value lower. Value differences were due to escaped new construction (construction without building permits), subdivision development cost, additions to yard improvements, double assessments, or differences in opinions of value.

RECOMMENDATION 2: Assess landscaping as new construction on newly constructed and transferred properties.

In our 1992-93 sample review, we found that the Kings County Assessor's appraisal staff values residential landscaping on newly constructed homes only if the landscaping costs are included in the developer's sale price. The assessor does not have a program to track and value newly installed landscaping after a property transfers from developer to new owner. Landscaping is an assessable component of property value. Property tax law requires the assessor to value any substantial additions to real property that qualify as new construction. Landscaping

is often installed after a sale, usually without benefit of a building permit. This makes it very difficult to discover and enroll such items.

We believe that if the Kings County Assessor's Office takes the following action, landscaping that has heretofore escaped assessment will be discovered and assessed; (1) implement a policy to value landscaping; (2) mail out new construction questionnaires to new home owners for identification of post sale additions.

b. Valuation of Subdivision Lots

The assessor is required to determine the base year value of any assessable new construction. The law, however, is unclear as to how the value of newly constructed public improvements (paving, sidewalks, gutters, curbs, utilities, etc.) should be allocated after such improvements have been dedicated for public use.

RECOMMENDATION 3: Assess subdivision development costs and implement valuation procedures for subdivision lots as outlined in Letter to Assessors No. 84/51.

On new subdivisions located outside the city limits, Kings County approves all public rights-of-way. However, the county does not have sufficient budget to acquire or maintain this property. Therefore, the subdivision rights-of-way are owned and maintained collectively by the subdivision lot owners. This is not the case with subdivisions located within the City of Hanford; ownership of subdivision rights-of-way and offsite improvements are accepted by the city after completion of the construction of public improvements. The Kings County Assessor's staff does not value subdivision development costs while the developer owns the property, thus, the public improvements are assessed only when property transfers from the developer to a new owner. Subdivision development costs are a value component in residential properties and as such are assessable.

The Board's Letter to Assessors No. 84/51 establishes procedures for the valuation of subdivision lots and states the Board staffs' position that the value of the street improvements be allocated over the entire subdivision acreage. When the street rights-of-way and improvements are accepted by the governmental entity, only the value of the land and improvements allocated to the street parcel of rights-of-way can be removed from the roll.

We recommend that the Kings County Assessor's Office assess subdivision development costs and implement those valuation procedures outlined in Letter to Assessors No. 84/51 when assessing land and off-lot improvements.

c. Self-Reported New Construction

SUGGESTION 1: Implement a taxpayer self reporting program for certain new construction.

Currently the Kings County Assessor's Office does not have a self-reporting program for new construction. Certain types of new construction lend themselves to self-reporting. Examples of property types that can be self-reported are: patios, swimming pools, fencing, concrete flatwork, landscaping, and small residential additions. Returned reports can be used to value and assess such new construction. This saves trips and field inspections. It is suggested that the following procedures be used in a self-reporting program:

- (1) Use the building permit to identify the property to be valued.
- (2) Create a pilot program whereby the taxpayer is requested to report sufficient data which would enable the county appraisers to make value estimates of new construction without a field inspection.
- (3) The program should be limited to minor alterations and additions that qualify as assessable new construction.
- (4) A maximum permit value should be established; projects with values over this amount should be field reviewed.
- (5) An aging period should be established. We suggest that approximately 90 days be allowed to elapse after receipt of the permit before the self-reporting form is sent to the taxpayer.
- (6) The form should be comprehensive enough to give appraisers enough data to make a value estimate. A plot plan to be completed by the property owner should be a part of the form.
- (7) An appraiser should review the returned forms and determine if a field review is necessary.
- (8) A follow-up program should be established and the taxpayer informed of it. We suggest that a randomly selected 20 percent of the returned questionnaires and individual properties be field checked to verify reported data. This will enable a program evaluation to pinpoint problem areas.

We believe that when properly administered, the taxpayer self-reporting program for new construction expedites the appraisal of low-valued new construction and reduces appraisal field time, thereby freeing appraisers for other projects. We suggest that the assessor conduct a pilot program using the taxpayer self-reporting concept to assess relatively small items of new construction.

d. Entrepreneurial Profit

Entrepreneurial profit is a recognized increment in the cost approach to value. It is the difference between the total of all direct and indirect costs and the fair market value, and must therefore be sales derived. If a newly constructed property suffers from economic or functional obsolescence, there may be little or no entrepreneurial profit. In fact, an entrepreneurial loss may result under some circumstances; a property could be worth less than it actually cost to build or would cost to replace.

SUGGESTION 2: Consider entrepreneurial profit when valuing commercial and industrial new construction by the cost approach.

The Kings County appraisal staff does not include entrepreneurial profit in their cost estimates of commercial and industrial properties. In most instances, the actual construction costs are used. If not available, the county appraiser relies on the commercial and industrial costs from BOE and Marshall Valuation Service, which do not include entrepreneurial profit. Regardless of which cost source is used, these costs usually are the basis for the roll value for new construction.

The value the county appraiser should strive to determine is the fair market value of the newly constructed improvements, as of their completion date. The costs used by the county should include all direct and indirect costs necessary to construct the improvement including entrepreneurial profit.

We suggest the assessor consider entrepreneurial profit when using the cost approach to value. Entrepreneurial profit is an important component of the cost approach and it must be considered in order to ensure that fair market value is being determined.

e. Building Permit Processing

The county and four cities all issue building permits. They are sent to the Kings county assessor's office on a monthly basis and grouped by date received and location. The county received approximately 2,000 permits for review during 1996-97, and as of July 1996, an estimated 885 were still waiting for review.

The county assessor's office has one appraisal aide whose responsibility is verifying permit information regarding owner's name, address, and location of job site. The parcel numbers are identified by referencing situs or lot number and are written on each permit. The information on the permits is entered into the property computer system which generates a listing of permits and pertinent data. When the worksheets are received, they are checked for errors. If no errors are found, the permits are attached to the worksheets and filed in the work drawer, by parcel number, for processing and valuation by the field appraisers.

The worksheets are coded by the appraiser with a CIP number and returned with the permit to the appraisal aide. The coded worksheet is reentered into the property computer

system which generates a new listing. The old worksheet, along with the permit, is filed in a box labeled CIP. Once the new worksheet is received, it is attached to the original permit and again filed in the work drawer for completion. After new construction is completed, the permits are destroyed.

The county's permit program is effective because the workload is moderate and there is good coordination between members of the appraisal staff. We found the county's permit program to be well designed and operated efficiently.

f. Tenant Improvements

Tenant improvements (TI's) are defined as improvements to land or structures that are paid for by the tenant/lessee. These improvements are also referred to as leasehold improvements.

A portion of the Board-prescribed business property statement (Schedule B of Form 571-L) is for the reporting of leased improvement costs, i.e. costs expended by tenants for improvements to rented or leased buildings. The auditor-appraisers in the business property section review reported costs on Schedule B of the Business Property Statement (BPS) for those items they believe to be assessable tenant improvements. The BPS is flagged, initialed and forwarded to the real property appraisal unit for review and assessment.

It is the policy of the assessor to assess all tenant improvements to the property owner. When the tenant vacates, it is the responsibility of the property owner/landlord to notify the assessor's office of any changes. Due to workload restrictions, only the major retail stores, and a few of the larger shopping centers are reviewed yearly for changes. The assessor's appraisal staff values tenant improvements using cost reported on the BPS (Schedule B of Form 571-L), Marshall Swift, and SBE costs; the greatest reliance is given to reported costs.

We reviewed 15 secured business property statements and real property records with tenant improvements checking for (1) reported cost and description, (2) proper identification of TI's by the business property section, (3) coordination between the business property section and the real property valuation unit to ensure proper assessment, and (4) proper assessment (possible double assessments and escapes). Of those properties reviewed we found no significant problems relating to the assessment of tenant improvements were found.

g. Interest on Construction Funds

Interest for the use of funds used during construction is a proper component to include in the cost approach to value. Large companies with sufficient funds may finance their own construction projects. Interest should be included whether funds are borrowed or owner supplied. In cases where funds are owner supplied, the assessor must impute an interest charge and include it in the cost summation.

RECOMMENDATION 4: Insure that construction period interest is included when appraising large commercial and industrial properties by the replacement cost method.

CPTD found from the 1992-93 sampling of the Kings County assessment roll, and a review of the county's larger commercial and industrial records, that many of the appraised values did not include a component for interest on funds used during construction.

The cost of interest on money used to fund construction activity must be considered as a component of the cost approach to value. We recommend that the assessor adopt procedures to ensure that interest costs are properly accounted for whenever the appraisal staff uses the cost approach to value large commercial and industrial properties.

h. Escaped New Construction

Section 531 of the Revenue and Taxation Code requires the assessor to enroll all escaped assessments, including new construction, upon discovery. Section 532 (Statute of Limitations) states that escaped assessments must be enrolled within four years after July 1 of the assessment year in which the property escaped taxation. Thus, the assessor, upon discovery, is required to enroll escaped assessments for all previous years, open under the statute of limitations.

RECOMMENDATION 5: Enroll supplemental and escape assessments for all applicable years allowed under the statute of limitations.

Several rural properties appraised by CPTD's sample appraisal team contained new construction, built without benefit of a building permit, that had escaped assessment. The assessor's staff enrolled most of the escaped new construction discovered by the CPTD appraisers on the next regular (section 601) roll; however, it appears from our subsequent review of those properties that no supplemental or escape assessments were enrolled for applicable prior years. In reviewing the assessor's 1995 and 1996 roll changes (escapes or corrections), we found only one instance where an escape assessment had been made for new construction.

On page 68, Section 6, #10, Rural Properties, the Kings County Assessor's Procedures Manual states:

"Board orders for additional improvements are not written unless you can ascertain when the improvements were put in. Pick up on date of discovery or if from 571 (reference is to the business property statement submitted by taxpayers), the last day of February. If the escape is material, take the information to the Chief Appraiser."

The assessor's practice of not enrolling applicable escaped assessments for new construction was discussed in our prior Assessment Practices Survey (1992). At that time, we

recommended that the assessor revise his policies to require staff to enroll supplemental and escape assessments for all new construction that escaped assessment, and to enroll those escapes timely. Since the assessor did not change his policies, we repeat our prior recommendation. We recommend that the assessor enroll supplemental and escaped assessments for all years open under the statute of limitations when escaped new construction is discovered.

3. Declines in Value

Whenever a property's current market value declines below the factored base year value that lower value must be enrolled as the taxable value for the years of the decline. If the property's market value subsequently increases above factored base year value, then the factored base year value resumes as the taxable value. The Kings County Assessor makes an effort to monitor market trends and individual property situations in order to recognize value declines.

Kings County real estate values have been impacted by the recent general recession in California's economy. Properties most affected have been commercial properties located in urban areas, and to a certain degree, some newly constructed subdivision tracts.

The Kings County staff does a good job of identifying and processing properties that have declined in value. Once identified, the properties with value declines are tracked by the assessor's staff with the use of computers. On each following lien date, the appraisal staff reviews all such reduced values and determines whether each property value has recovered to a point that is equal to or exceeds its factored base year value. Staff determine the lien date market value, compare it to the base year factored value and enroll the lower of the two values. Each property record that was reviewed contained adequate documentation to support the staff's values.

4. Assessment Appeals

In Kings County the elected county board of supervisors acts as the local board of equalization in property tax appeals. Our analysis and review of the assessment appeals process reveals that the assessor and the Assessment Appeals Board (AAB) work closely to resolve all disputed value differences. The Kings County Assessor's Office workload of assessment appeals is approximately 150 cases a year. The majority of AAB cases involves nonresidential real property. For the most part, staff appraisers process assessment appeals of real property located in their assigned geographical areas. More experienced appraisers work those appeal cases involving complex commercial and industrial properties.

Staff have prepared detailed written procedures for each stage in the processing of appeal cases, from determining the eligibility of each case filed, to the conduct of assessment appeal hearings before the board of supervisors.

Once eligibility is determined, assessor's staff schedule a conference with the applicant to discuss the valuation issues and determine whether a problem does exist with the assessment. The conference serves to clarify and resolve differences between the assessor and the

applicant. The conferences serve their purpose, AAB statistics show that a significant percentage of cases are resolved either by stipulated reductions or withdrawals of appeals by the applicant. As evidenced by the following chart relatively few appeals are presented at hearings before the board of supervisors.

Disposition of AAB cases for years 94-95 and 95-96 are as follows:

<u>Appeals Filed</u>	<u>1994-95</u>		<u>1995-96</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Appeals	108	100	119	100
Parcels	125	100	196	100
Applicants	33	100	48	100
Stipulations	52	48	33*	28
Parcels	52	42	29*	15
Applicants	11	33	18	38

Appeals Heard

Assessor upheld	12	11	15	13
Applicant upheld	2	2	0	0
Withdrawn (Parcels)	11	10	73	37
(Applicants)	6	18	12	25
Cases Pending (Parcels)	15	14	1	1
(Applicants)	3	9	1	1
Postponed (1 Applicant)	0	0	7	6
Denied (late filing, 1 applicant)	1	1	22	11

*Includes multiple filings on six (6) parcels by one (1) applicant. Four (4) parcels received stipulated reductions in value and applicant subsequently withdrew duplicate filings.

Despite the relatively low caseload, the assessor and his staff consider assessment appeals to be an important aspect of assessment administration and have developed an effective program for preparing and presenting the facts. Both mainframe and networked personal computers (PC's) are used to store data obtained through Change of Ownership Statements (COS), sales analysis, and income and expense questionnaires. Staff has also assessed market data from Internet sources and makes use of that data in their AAB presentations. By using computer word programs, appraisers generate detailed narrative appraisals for presentations at appeals hearings before the county board of supervisors. The Kings County Assessor and his staff have developed a very effective program to administer assessment appeals.

B. SPECIAL PROPERTY TYPES AND PROCEDURES

1. California Land Conversation Act

An agricultural preserve is established by agreement between a landowner and the county. Lands under such a contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting), and are assessed at the lesser of this restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 of the Revenue and Taxation Code deal explicitly with the valuation of lands subject to agricultural preserve contracts.

Farming is big business in Kings County, and the vast majority of Kings County landowners have entered into contracts under provisions of the California Land Conservation Act (CLCA). For the 1995-96 lien date there was approximately 685,000 acres consisting of about 5,600 parcels encumbered by CLCA contracts in Kings County. This is equivalent to 77 percent of the county's total land area of 893,279 acres. Of the 685,000 acres covered by CLCA contract 151,250 acres were enrolled on the 1995-96 assessment roll at their factored base year values or their current market values because these values were lower than the calculated restricted values. Property in nonrenewal status accounted for 4,200 acres. The total taxable value of the land and living improvements on the 685,000 acres was \$479,554,500.

Our 1992-93 roll samples included 102 CLCA properties, of which 54 showed minor to significant differences. There were 31 parcels that were undervalued, 23 parcels that were overvalued, and 48 that were in agreement.

Procedures

The computer program used by the assessor in valuing agricultural preserves is effective; however, during our sampling and survey programs we discovered an error in the program. The error resulted in a smaller expense deduction being made for the irrigation system necessary for living improvements than had been intended. Therefore the amount of net income attributed to living improvements was overstated. This resulted in a material overvaluation of the living improvements. This error has since been corrected, and we commend the assessor for immediately correcting the error when we brought the problem to his attention.

Sources of data

Annually an Agricultural Preserve Questionnaire for each parcel under CLCA is mailed to the property owner. This questionnaire requests information regarding production, income, and expenses. The form is well suited for reporting this information regarding crop land, living improvements, and grazing land. It solicits the relevant data in clear, unambiguous language; the return rate for this questionnaire exceeds 80 percent. Relevant information reported on the questionnaire is manually entered on rental summary sheets by two members of the rural appraisal staff. These entries could be made by one person on a computer spread sheet program.

In Kings County, share rents are generally more common than cash rents. However, our sampling of the 1992-93 assessment rolls in both Kings and Fresno Counties did find current rents to be mainly cash in the area on the west side of the valley which is being served by the San Luis Unit of the Central Valley Project, (Westlands Water District). Historically, most land rents in this area were based on a percentage share of the crop. The transition to cash rents occurred primarily because of the uncertain water deliveries caused by legislation ("Miller-Bradley Bill") limiting the original water allotment contract to 50 percent. A number of cash rents we confirmed were based on a flat rent for the land, plus a dollar amount per acre foot of water received; an example would be \$50/acre bare land rent, plus \$65/acre foot of water received. Expenses, such as property taxes and water district assessments, vary. The negotiated rent determines who (lessor or lessee) will pay these expenses.

The assessor's rural appraisal staff annually update the commodity prices used in arriving at their share rents. They contact packers and growers to update packed fruit prices (F.O.B.). The appropriate expenses are deducted from the F.O.B. prices, i.e., harvest, packing, commissions, etc. For wine grapes they refer to the Final Grape Crush Report issued annually by the California Department of Food and Agriculture. The annual Agricultural Crop and Livestock Report, published by the Kings County Agricultural Commissioner, is used to determine hay, grain, and seed crop prices.

RECOMMENDATION 6: Revise selected procedures for assessing California Land Conservation Act Properties by: (1) using typical or actual crop rotation practices when calculating crop income; (2) deducting from gross rent all expenses that are paid by the lessor and deduct a capital replacement charge for irrigation wells that contribute to the income; (3) revising assessments of living improvements by: (a) recognizing that pistachio trees do not reach mature production until age 20; and (b) using the straight-line declining income premise when capitalizing income from pistachio orchards with tree root stock susceptible to Verticillium Wilt.

Reprogram Computer to Reflect Actual Crop Rotations When Calculating Crop Income

The assessor's crop rotation assumptions used to calculate restricted land values, contributed to both undervaluation and overvaluation of those properties. County appraisers properly derive land rents based on income from crops commonly grown in the area, however, the formula they use does not take into consideration typical or actual crop rotations, i.e., the typical number of years the crops are grown before being rotated.

The assessor's crop rotation assumptions are based on three and four year averages instead of the actual or typical crop rotations that reflect the number of years the crops are grown before they are rotated. This could overstate or understate the income used in the land valuation formula. For example, if the crops grown in an area are cotton, (planted three consecutive years) and barley or safflower one year (total rotation four years) the county's

program calculates the income in this manner: one year cotton, one year safflower, and one year barley, divided by three years. By not using the actual rotation, or the rotation common for the area, the rental income is understated. This is because the same weight is given to the higher paying cotton crop, as the lower paying safflower or barley crop.

An overstated income will result when a high paying crop, such as tomatoes, is part of the rotation common to the area. The rotation being three years alfalfa, one year tomatoes, two years cotton, and one year barley or wheat (total rotation seven years), the gross rent figure should be calculated based on a seven year crop rotation. The assessor's program would calculate this seven year crop rotation as: one year alfalfa, one year tomatoes, one year cotton, and one year barley or wheat divided by four years. In this example the income is overstated.

Occasionally CPTD appraisers projected higher production on sample items than the assessor's appraisal staff. In most cases the production estimate we used was based on production history of the sample property and supported by production on comparable land.

We recommend the assessor use crop rotation assumptions that reflect actual crop rotation when calculating crop income.

Deduct from Gross Rents All Expenses That Are Paid by the Lessor and Deduct a Charge for Replacement of Irrigation Wells That Contribute to the Income.

Share rents used on some of our sample items specified that one of the expenses paid by the lessor was irrigation or water district assessments. The assessor did not deduct this expense.

Another expense we found not accounted for by the county was a charge for replacement of wells that contribute to the earning ability of the land being appraised. Wells may be the sole source of water supply, or used for supplemental water in an irrigation district. They are classified as land for property tax purposes and the return on investment is included in the land capitalization rate; nonetheless, they are a wasting asset, and a charge for replacement must be subtracted from the income stream. We recommend using the replacement cost new (RCN) of the well when deriving a charge for recapture, i.e., if the cost of a well on 300 acres is \$60,000 and the estimated life is 25 years, the charge would be \$8.00/acre ($\$60,000 \times 4.0\% / 300 \text{ acres}$). Appraisers should be aware that lives on irrigation wells vary greatly. There are areas where wells will produce efficiently 50 or more years, while in other locations wells will require replacement in 10 to 12 years.

We recommend the assessor direct his rural appraisal staff to deduct all of the appropriate expenses.

SUGGESTION 3: Increase risk component in the CLCA capitalization rate for properties with uncertain water deliveries.

On our 1992-93 sample items that were being served water by the San Luis Unit of the Central Valley Project, we increased the risk component normally used in the CLCA capitalization rate, compared to properties with similar uses, one percentage point (1%). This was because of uncertain water deliveries. On lien date (March 1st) 1992, it appeared that legislation (Miller-Bradley Bill) would pass which would reduce water deliveries to only 50 percent of the original contracted water allotment. The legislation did pass and was signed by President Bush in October 1992. This legislation increased the risk related to receiving an adequate amount of irrigation water.

We suggest the assessor have his staff review water districts on the west side of the county to determine if there is still uncertainty concerning future water deliveries which would warrant an increase in the risk component of the CLCA capitalization rate.

Revise Assessment of Living Improvements

CPTD roll samples included eight parcels with living improvements that we found to be overvalued. The primary cause was an error in the assessor's computer program, which we previously discussed which was corrected for the 1996-97 assessment roll. Additional problems involving the valuation of pistachio orchards were discovered on three samples we appraised.

The assessor's rural appraisal staff are assigning mature production to 11 year old trees. This is a problem because it overstates the production resulting in an overvaluation of the trees. It takes pistachio trees about 11 years in the central and southern San Joaquin Valley to begin their alternate bearing cycle; they do not generally reach full production until they are at least 20 years old. On our sample appraisals involving pistachio orchards we estimated 20 years to reach maturity. The above information on pistachios was obtained from pistachio growers and University of California Cooperative Extension Service's farm advisors.

Pistachio orchards were originally planted in southwestern Kings and northwestern Kern Counties in the 1970's, on Atlantica root stock, which was found to be susceptible to Verticilium Wilt. For lien date 1992 it is estimated that 65 plus percent of the original plantings have been removed due to the wilt problem; these were replaced with Pioneer root stock, which is considered resistant to Verticilium Wilt.

CPTD used a straight-line declining income premise on the trees still on Atlantica root stock with estimated remaining lives from 8 to 15 years, dependent on when the trees were planted and how accelerated the wilt. The assessor is enrolling values based on the constant income premise and using 40 year economic lives on all pistachio orchards, regardless of the root stock. By doing this, the assessor is overvaluing pistachio orchards on root stock susceptible to Verticilium Wilt.

We recommend that the assessor's staff recognize that it takes 20 years for pistachio trees to mature, assign 50 year economic lives for those trees on wilt resistant root stock, and use the straight-line declining income premise when capitalizing income from orchards susceptible to Verticilium Wilt.

The staff should also review the pistachio orchards in Kings County to determine (1) the number of acres planted either on Atlantica or Pioneer root stock, (2) ages of the trees, (3) the average number of trees or acres lost per year due to wilt problems, (4) projected production, and (5) anticipated remaining life.

SUGGESTION 4: Revise dry grazing land procedures as outlined in Assessors' Handbook section 521; revise the Agricultural Preserve Questionnaire.

There are about 126,000 acres of dry farm and grazing lands in Kings county under CLCA contract. Assessors' Handbook Section 521 recommends appraisers utilize the animal unit (AU) and animal unit month (AUM) as the indicator of market value income. The assessor's appraisers uses a per acre rent when valuing open-space dry grazing land. While applying an economic rent per acre is a proper method for many types of agricultural properties, the methodology often fails to recognize the various capabilities and qualities of grazing lands. For example, ranch units and individual parcels vary in the quantity of open land, brush, rock outcrops, quality of feed, etc. Applying a fixed rent per acre is not recommended when appraising most grazing lands. Information on rental income from grazing lands should be converted to the amount of rent paid per animal unit month (AUM).

Although the market rental rate is stated in dollars per acre, animal unit months (AUM's) must be considered when establishing comparability of sold properties or comparing rental income levels for grazing lands. The animal unit is a simple and accurate method for comparing grazing lands. It is the most flexible measuring device for estimating carrying capacity and thus productivity of grazing lands. A grazing land unit consisting of more than one parcel generally has areas of different carrying capacity. Assessors' Handbook 521 suggests that the total value of each grazing unit should be allocated to the individual parcels according to the carrying capacity of each parcel comprising the unit. Similarly, areas of significantly different capability within a parcel should be separately estimated. There are a number of contiguous areas in the lower foothill and flat dry grazing land in Kings County that are comparable in productivity. A per acre rent based on rents collected in these areas could be applied; however, appraisers still should be familiar with the productivity or carrying capacity of the individual parcels.

Kings County appraisers, in most cases, use the average price per acre rent for the total appraisal unit. This practice is used for expediency. The total value may be correct; however, if part of the unit transfers or splits for various reasons, a value distortion could occur. We suggest the Kings County appraisers use animal units or AUM's when appraising all grazing lands, not just those properties under CLCA contract.

The Kings County Assessor has a well designed form titled "Agricultural Preserve Questionnaire." It asks farmers for pertinent data regarding carrying capacity. We suggest adding a question to the form regarding the number of listed head requiring supplemental feed, and if so, what type and amount?

We suggest that the assessor revise his dry grazing land procedures as outlined in Assessors' Handbook section 521 and revise his Agricultural Preserve Questionnaire.

2. Taxable Government-Owned Property

The Constitution of the State of California exempts from taxation property owned by a local government except lands and improvements located outside the local government's boundaries that were subject to taxation at the time of acquisition (article XIII, sections 3 and 11). Permission to tax land and improvements owned by a local governments located outside their boundaries was put into law in 1914 following the extensive acquisition of such properties in Mono, Inyo, and Tuolumne Counties. The removal of so many, and so much, property from the various counties' property tax bases was having severe economic impact upon those counties. This property became taxable due to that law change; however, a 1968 constitutional amendment placed certain limits on assessment increases of these properties.

For land owned by a government agency outside the agency's boundaries which was taxable when acquired, the assessment must be the lower of: (1) the current fair market value as defined in section 110 of the Revenue and Taxation Code; (2) the value determined by multiplying its 1967 assessed value times the appropriate section 11 factor; or (3) the factored base year value.

Improvements owned by a local government outside the agency's boundaries are taxable if the improvements were taxable when acquired or were constructed by the local government to replace improvements which were taxable when acquired. All other improvements are exempt. Taxable improvements are assessable pursuant to article XIII A at the lesser of their current fair market value or factored base year value. However, section 11 provides that taxable improvements cannot be assessed at a value higher than the highest full value ever used for taxation of the improvement.

A very small number of properties in Kings County are subject to these special assessment procedures. In reviewing the assessors ownership index we discovered only five parcels owned by local governments that were outside their boundaries in 1995. Three of these parcels were recently annexed into the respective city boundaries and are no longer taxable.

RECOMMENDATION 7: Review and assess all government owned properties which lie outside their boundaries.

In our two previous surveys we noted problems with the assessment of government-owned properties outside their boundaries. During our current review we discovered several more problems in this area.

On four of the parcels we reviewed, the factored base year value was being enrolled. No determination or comparison is made of the 1967 assessed value times the appropriate section 11 factor value. Additionally, on two of the four parcels, newly constructed improvements which were not replacement improvements are being assessed.

Another parcel we reviewed is owned by a city redevelopment agency and has not been assessed since 1993 when it was assessed at its factored base year value. Until annexation by the city in July 1996, this parcel was outside the city's boundaries and was subject to the special assessment procedures of section 11.

Also, in reviewing the assessors ownership index we found one city-owned parcel within its boundaries that is being assessed. A taxable possessory interest may exist in the land and improvements, otherwise, the land and improvements are not taxable.

Even though the assessed values of these properties are not material in the context of the total assessment roll, we recommend the assessor review all government-owned properties for taxability and properly assess those government-owned properties which lie outside their boundaries.

3. Possessory Interest

A taxable possessory interest (PI) is an interest in publicly owned real property that is not located in a "federal enclave". The term "possessory interest" as it is used for property taxation in California includes either the possession or the right to possession of publicly owned real property for a term less than perpetuity.

The assessor obtains a list from the tax collector's office identifying all public agencies that are tax exempt. From this list the appraiser mails to each agency a letter requesting data; the mailing includes an edited list of prior assessable PI's. The list includes user's name, location of property, term of contract, contract rent, permitted use, and assessment number. It is the agency's responsibility to add or delete from this list and return to the assessor an updated list of assessable PI's for lien date assessments. If the agency does not provide this list within 15 days of the request, the county mails a follow up letter. This request for data is made in compliance with section 441 (d) of the California Revenue and Taxation Code.

Our review of randomly selected PI properties indicates that the most used method of valuation was the direct capitalization of actual reported income. Our review found PI's subject to reappraisal were being correctly valued according to section 61 (b) of the Revenue and Taxation Code. It is the assessor's policy that unless there is a change in ownership, new permit or new contract, or increase in rent, the PI is revalued only at the end of its term or when the term of the agreement changes. If no change occurs and the estimated term has not expired, the assessment remains unchanged except for the annual article XIII A factor being applied.

The assessor's staff establishes a base year value for all new PI assessments. PI properties which contain renewable contracts each year are not reappraised unless (1) there has been a significant change in rent income, or (2) there is a change in ownership or location, or (3) the anticipated term of possession has expired.

Most PI assessments reviewed in Kings County have relatively long terms of possession and the dates of changes in ownership are readily identifiable. However, other PI assessments, notably airport PI's, are exceptions that are characterized by month to month leases or annual rentals. The assessor calculates rent changes for PI properties located at the airport by comparing the prior year's rents with reported current rents, allowing an acceptable value range tolerance of plus or minus 5 percent. Listed rents not within that range result in a reappraisal of that interest.

A possessory interest that is leased on a month-to-month basis experiences a change of ownership each month when the lease is renewed. To reappraise these properties every month would not be cost effective and it would create a cumbersome management problem for the assessor and his staff. In prior assessment practices surveys, CPTD has recommended that possessory interests with month to month leases be reassessed annually using current market data.

Section 61 (b)(2) of the Revenue and Taxation Code, effective January 1, 1997, affects these prior recommendations. This statute now provides that a renewal or extension of a possessory interest during the term of possession used by the assessor to value that interest does not cause a change in ownership. Instead the assessor must reappraise at the end of the term of possession used to value the PI.

During our random review, CPTD found a PI assessment with a taxpayer's complaint letter stating that the mobilehome he occupies is owned by the State of California's Coastal Aqueduct; therefore, the state is responsible for payment of current and future PI tax assessments. The situation in this letter was confirmed by CPTD to be correct. However, because a manufactured home (MH) is classified as personal property, and personal property owned by a government agency is not subject to possessory interest assessment, the PI is not subject to taxation. The assessor should take care to not include personal property in a PI assessment (the land related to the MH is subject to PI assessment).

Based on our review, we found the auditor-appraiser responsible for the valuation of PI properties to be well versed in the proper PI valuation techniques and well informed and knowledgeable concerning properties being assessed. Since our 1992 assessment practices survey, we did find one ongoing problem that has not yet been resolved. This involves allocation of possessory interest values to land and improvements.

RECOMMENDATION 8: Revise possessory interests assessments by: (1) allocating value to both land and improvements; (2) not allowing a veteran's organization exemption unless a claim is filed and properly processed; (3) ascertaining the assessability of all possessory interests at the fairgrounds; (4) reviewing the procedures used for a negative assessment for the termination of a possessory interest.

Allocate Value to Both Land and Improvements.

The possessory interest assessments of aircraft T-hangers and shades located at the City of Hanford airport are valued using direct capitalization of reported actual income . The improvements owned by the lessee in fee at the same location were valued using reported costs from the owner. However, the computed assessment was allocated to land only.

Except for the few airport PI's described above, the county assessor's staff is correctly allocating assessments to land and improvements. CPTD was assured that PI's with allocation problems will be corrected during reappraisal.

Do Not Allow an Exemption Unless a Claim is Filed and Properly Processed

In our review of possessory interest assessments on properties owned by the County of Kings-Purchasing Agency, we found one property eligible for exemption that was improperly processed. The property identified was a veteran's hall building. It was determined: (1) the affidavit for the veterans' organization exemption claim was not filed with the county; (2) the property was not valued for a PI assessment; and (3) the exemption was automatically approved by the county assessor.

The property in question qualifies as an assessable possessory interest under section 107 of the Revenue and Taxation Code. The assessor should value all PI properties, and if a claim for exemption is filed by the occupant, and approved by the assessor's office, then exempt the property. Although the assessment result in this instance would most likely not be changed we recommend that PI exemptions not be allowed unless a claim is filed and properly processed and reviewed by the assessor.

Ascertain the Assessability of All Possessory Interests at the Fairgrounds

The State of California, Division of Fairs and Expositions, owns and operates county fairs throughout California that are administered locally by district agricultural associations. The 24th District Agricultural Association operates the annual Kings County Fair.

The Association rents space and facilities to groups and individuals, both public and private, for the four days of the fair each year. Rentals are generally to exhibitors and concessionaires. The assessor at present assesses only the major exhibitors and concessionaires. In addition to rentals during the county fair, there are many other public and private events scheduled at the fairgrounds between fairs.

In our investigation we found numerous private uses of fairground facilities that may constitute taxable possessory interests, and although most uses of fairground property are short-term (a few days), many are recurring year after year without likelihood of termination. These contracts confer the exclusive right to use specific facilities and parking areas for specific dates and times. These uses may be sufficiently durable, beneficial, exclusive, and independent to warrant assessment and enrollment as taxable possessory interests.

CPTD identified many users of the fairground facilities that have the potential for escaped assessment. We recommend that the assessor ascertain the assessability of all users of the fairgrounds and properly enroll those that qualify as taxable possessory interests.

Review the Procedures Used for Enrolling a Negative Assessment for the Termination of a Possessory Interest

When a possessory interest lease at the airport is terminated midway through the assessment year, the assessor's practice is to enroll a negative supplemental assessment to the terminating possessor (the difference is between the existing roll value and zero). If the space is taken over by a new possessor during the assessment year a supplemental assessment is properly enrolled for the difference between zero and the new base year value.

Supplemental assessments should be made only when changes in ownership or completion of new construction occur. Revenue and Taxation Code section 61(b) defines the events that may create a change in ownership of a PI. The termination of a possessory interest may be but is not always a change in ownership (R&T Code section 61(d)(1)(B)).

We recommend the assessor review the procedures used for enrolling negative supplemental assessments for the termination of a possessory interest to insure the procedures comply with statute.

4. Water Companies

Water companies are one of four types: (1) municipal systems, (2) private water companies regulated by the California Public Utilities Commission (CPUC), (3) private water companies not regulated by CPUC, and (4) mutual water companies. Each type presents different appraisal problems. Our review disclosed that three types of these water companies do business in Kings County: one privately owned CPUC regulated water company, one mutual water company, and several municipal systems. We reviewed the assessments of these water companies during this survey; however, our discussion here does not include the assessment of taxable municipal water companies located outside their boundaries (this is discussed in this report under the section on Taxable Government-Owned Property.)

Private Water Companies Regulated by the CPUC

Private water companies, both regulated and unregulated, are utility companies that are in business to earn a profit from the sale of water. Regulated companies are required to file annual financial reports on their operations to the CPUC. The CPUC regulates the rates charged by private water companies, with profits limited to an authorized return on the companies' investment. Because the market values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to review its taxable value every lien date.

SUGGESTION 5: Consider the effect of rate regulation on the taxable value of the privately owned regulated water company.

The one privately owned regulated water company operating in Kings County serves a residential subdivision of approximately 132 homes, and also serves several hotels and commercial establishments located in the county. Our review of that company disclosed that the assessor enrolls the factored base year value each year. No review is made annually to determine if the current market value is lower than the factored base year value.

The Policy, Planning and Standards Division believes that the regulatory conditions influence the market value of private water companies. Because of this regulation the market value of the water company may have declined. Therefore, we suggest that the assessor annually review the current market value of the privately owned regulated water company to determine if it is lower than the factored base year value. We suggest that the assessor annually obtain a copy of the company's CPUC filing or financial statements. The CPUC filing or the company's financial statements will provide historical cost and income data useful in determining the current market value of the company's property.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used only by its stockholders or members. If incorporated, the stock shares are held by those property owners served by the system. An incorporated mutual water company can enter into contracts, incur obligations, and own property. However, if not incorporated, it can only do these things in the names of all its members. Corporations organized for mutual purposes are not subject to regulation by the California Public Utility Commission. When the mutual water company's shares are appurtenant to the land, the value of the equity of the mutual water company is typically reflected in the sale prices of the property being served and to which the shares attach.

SUGGESTION 6: Review the assessment of the mutual water company.

We found only one mutual water company operating within the county. The company serves a forty-one lot residential subdivision located in the county. Our review of this company's assessment records disclosed that the land owned by the mutual is being assessed

separately at its factored base year value. The improvements or distribution system owned by the company are not being assessed. Records indicate that the assessors staff has not assessed the improvement or distribution system since 1978 because they believe those values should accrue to the residential land.

We contacted the mutual water company and were informed that the shares were attached to the lots served and could not be sold separately. The value of the equity in the mutual company's property (land, improvements, distribution system) is included in the sale prices of the lots served by the company. Since the assessor has a separate assessment on the mutual water company land, and its equity value is also being assessed to the land owned by the water users, there may be a double assessment depending upon how the taxable values of the lots are determined.

For this reason, we suggest that the assessor review the assessment of the mutual water company to insure that no double assessment is occurring and that the water company's improvements are not escaping assessment.

5. Property Damaged by Misfortune or Calamity

In December 1984 the Kings County Board of Supervisors adopted an ordinance providing tax relief for taxpayers whose taxable property is stricken by misfortune or calamity. This ordinance enables the county assessor to apply the provisions of section 170 of the Revenue and Taxation Code to affected properties under the following conditions:

- (1) The total loss in full cash value to land, improvements, and personalty must be at least \$5,000 and not the fault of the owner.
- (2) The applicant must notify the assessor within 60 days of such misfortune. If, however, the assessor discovers the damage within six months of the misfortune, the assessor shall provide the last known owner with an application for reassessment. The completed application must then be returned to the assessor within 30 days, but in no cases more the six months after the date of misfortune.

In our 1992 assessment practices survey of Kings County, we recommended the assessor require written applications for disaster relief. We are pleased to report the assessor has implemented this recommendation.

SUGGESTION 7: Obtain fire reports on a regular basis from all fire departments within the county.

Currently the Kings County Assessor's staff relies primarily on newspaper articles, taxpayer notification, field investigation, and building permits to discover calamities. An additional important source for this type of information is fire reports prepared by the various city and county fire departments. The assessor's office has not asked for or received copies of these fire reports. We requested and received without delay a list of the properties that suffered fire

damage during the 1995 calendar year from the cities of Hanford, Lemoore, and the Kings County fire departments (Corcoran is included in the Kings County Fire Department report). The Kings County Fire Department report listed 22 properties with fire damage exceeding \$5,000; the Hanford and Lemoore fire department reports listed 13 such properties. A review of the assessor's records on several of these properties revealed no action was taken nor was there any documentation referring to a fire. A field review of one fire damaged home (damage estimated by the fire department to be \$50,000) revealed a structure that was boarded up. The fire occurred on November 7, 1995, yet the assessor's value has not changed the assessment to recognize the fire damage. The 1996-97 assessment roll reflects a factored base year value on this parcel, less a \$7,000 homeowners' exemption.

We suggest that the assessor obtain periodic reports from local fire departments. These reports will notify staff of properties that may need to be reviewed for disaster relief.

6. Low-Valued Property Exemption

Section 155.20 of the Revenue and Taxation Code permits county boards of supervisors to exempt from property tax all real and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level of exemption the costs of processing assessments and collecting taxes exceeds the proceeds and then establish the exemption level uniformly for different classes of property. The full value to be exempted may not exceed \$5,000 (prior to January 1, 1996, the limit was \$2,000).

SUGGESTION 8: Request the county board of supervisors adopt a resolution to exempt low-valued property.

The assessor has not approached the county board of supervisors regarding a resolution to exempt low-valued property. Such a resolution would be helpful for handling low-value possessory interests, small business assessments, many manufactured home accessories, and other low-valued assessments.

We suggest that the assessor request a resolution exempting low-value property.

III. PERSONAL PROPERTY VALUATION AND ASSESSMENT

A. INTRODUCTION

The Kings County Assessor's office business property appraisal staff consisting of two auditor-appraiser III's and one assessment clerk, is charged with the appraisal of 4,678 commercial, industrial, or agricultural properties, 128 general aircraft, and 2,030 pleasure boats.

The CPTD's sampling of the county's 1992-93 assessment roll included 95 secured and unsecured business property assessments. In 60 of those sampled items, county assessed value differed from the taxable values determined by CPTD staff. Specifically, the local roll value exceeded CPTD values in the case of 4 sample items, while in 56 cases the CPTD values were higher.

Thirty-four of the sample items involved problems with lives and value factors. Full value factors are the products of percent good tables (economic lives) and replacement costs indices. The reasons for these differences were that the assessor's staff did not use all the designated factors in Assessors' Handbook section 581 as originally intended; they assigned factors that are in close proximity to the industry's business property instead of those assigned by the CPTD staff.

Value differences noted in other sample items were caused by taxpayer reporting problems. The best way for any county assessor to correct taxpayer underreporting is to increase audit coverage, especially of nonmandatory accounts.

CPTD's sampling of pleasure boats and aircraft assessments (12 samples) indicated a trend towards undervaluing these properties. The remaining value differences were caused by procedural exceptions, varying appraisal judgments, and other areas of disagreement between CPTD and county staffs. These differences did not indicate any major program deficiencies.

We commend the assessor and his staff for their continuing efforts to improve the business property assessment program. Several positive changes have occurred since our last survey including additional funding for a position in the business property section dedicated to the assessment of trade fixtures and unsecured improvements.

The assessor also contracted with an independent computer programming firm to review his existing business property functions. The review resulted in a program that will assist in business property statement processing and audit preparation. The computer assists in processing business property statements by annually calculating replacement costs of yearly acquisitions. This replaces laborious and error-prone manual calculations, improving the quality of the cost estimates and saving valuable staff time. The assessor has in essence automated the preparation of his business property assessment roll. The current computer system was designed with the capability of upgrading its current storage and memory capacity to handle on-line auditing functions. The assessor has expanded the system memory so that calculations can be

stored for five successive roll years. This already good computer system should therefore become even better.

B. AUDIT PROGRAM

The audit program is an important function of the business division in an assessor's office. Although there is no legal requirement to audit smaller businesses, no audit program is complete unless it includes a representative sampling of all sizes and types of accounts. The Kings County Assessor not only completes all mandatory audits on a timely basis, but has also implemented a nonmandatory program.

1. Audit Topics

Section 469 of the Revenue and Taxation Code requires an audit of the books and records of taxpayers at least once each four years when the taxpayers' locally assessable trade fixtures and tangible personal property have a full value of \$300,000 or more for four consecutive years (these are referenced as mandatory accounts). Supplies are tangible personal property that should be included in the audit review.

SUGGESTION 9: Review supplies as part of every audit.

Our review of audits conducted by the Kings County Assessor's staff revealed that they were well documented, comprehensive, and easy to follow. However, the assessor's staff did not indicate or mention that supplies were examined during their audits. CPTD staff suggests that a review of supplies should be part of every audit.

2. Audit Checklist

SUGGESTION 10: Require the use of an audit checklist in every audit.

Audits verify the data submitted on the annual property statement. Whether simple, or complex, there are certain procedures to follow during an audit to ascertain the validity of reported figures and other data. A checklist details the pertinent points to cover during the audit. It acts as a reminder for the auditor-appraiser, and as documentation to the reviewer, that all pertinent points were covered during the audit. The checklist, along with the audit narrative, provides valuable information for further questions, audit review, and future audit preparation.

Kings county auditor-appraisers do not use an audit checklist, and although their worksheets are detailed and thorough, categories such as change in ownership, capitalization policy, and other pertinent information may be omitted because of the lack of a checklist. We suggest that the Kings County auditor-appraisers compile and use a checklist on every audit. It will improve the thoroughness and consistency of the audits.

C. BUSINESS PROPERTY VALUATION

1. Estimated Assessments

Business entities that fail to file the business property statement cause special problems for all assessors. Since no data is reported by the assessee, the assessor must generate a roll value based entirely upon an estimate. Section 501 is the assessor's authority for making estimates. It reads as follows:

“If after written request by the assessor, any person fails to comply with any provision of the law for furnishing information required by section 441 and 470, the assessor, based upon the information in his possession, shall estimate the value of the property and based upon this estimate, promptly assess the property”.

SUGGESTION 11: Audit or visit taxpayers who fail to file business property statements for three or more consecutive years.

The auditor-appraisers in the Kings County Assessor's Office usually make an estimated assessment by multiplying the previous year's enrolled value by 110 percent, then assign a 10 percent penalty for failure to file. This process is intended to cover the value of any unreported property and also to persuade the taxpayer to comply with the reporting requirement.

On the surface there does not appear to be a problem in making section 501 estimates. However when the assessor estimates values for several years, non-existent property may be assessed or the estimate may not be high enough to cover additions, thereby creating escapes. The procedure of estimating values when non-filing is involved may be reasonable for one or two years, but it can lead to inaccurate assessments if used for a number of years.

This practice should be limited to three consecutive roll years. We suggest that after this length of time, nonfiling taxpayers be scheduled for audit, or at least a personal visit to their place of business. If this is done once every four years, then it will still be possible to correct any erroneous estimated assessments within the statute of limitations.

2. Equipment Index Factors

RECOMMENDATION 9: Use the equipment index factors recommended in Assessors' Handbook section 581.

The Board annually publishes equipment price index factors that are used to compute replacement costs by trending historical costs for changes in price levels. Assessor's Handbook section 581, Equipment Index Factors, contains 20 index factor categories for commercial, industrial, agricultural and construction equipment. Our review noted that Kings County uses only six factors for commercial equipment, one factor for industrial equipment, and two factors for agricultural equipment. The commercial equipment factor used by Kings County

is an arithmetic average of seven of the twelve commercial equipment factors in Assessors' Handbook Section 581, and the industrial equipment factor is group five of the industrial equipment factor section in the handbook. Furthermore, the staff does not distinguish between new and used status of the equipment when valuing agriculture and mobile construction equipment. These practices can lead to inaccurate valuation of business property.

It is important that the audit-appraisal staff carefully select the appropriate equipment index factor. Averaging factors sacrifices accuracy for convenience, and the result could be either over or underassessments of taxpayer property. We recommend that the assessor review the methodology used in arriving at the index factors.

3. Authorized Signatures

RECOMMENDATION 10: Screen property statements more closely for proper signatures; reject those that do not meet regulatory requirements.

Several of the property statements CPTD staff reviewed were found to have been signed by other than authorized persons. Unless there is a written authorization on file in the Assessor's Office, the person signing the form cannot be "duly appointed fiduciary" within the meaning of Property Tax Rule 172. The Kings County Assessor's Office does not have any authorized signatures on file. One way to handle the agent's authorization is to have a copy of the written authorization filed inside the property statement folder with the originals maintained elsewhere, perhaps in a loose leaf binder.

We recommend that the assessor have staff screen property statements more closely for improper signatures and reject those that are not signed by either the property owner or a legal authorized agent.

4. Property Statements

RECOMMENDATION 11: Obtain Board approval for all property statements; apply non-filing penalties only when using Board prescribed forms.

Although the Kings County Assessor has used approved or prescribed forms in the past, statements used during the 1996-97 assessment year were not sent to the Board for approval, i.e. they were using non-approved forms.

In the case of the assessor's Boat & Motor Property Statement, which is not a Board prescribed form, reference is made to Revenue and Taxation Code section 441, this code section refers to section 463, which is a penalty statute. Because this form is not Board prescribed, reference to section 463 penalties are improper. This implied penalty liability should be removed from the form.

We recommend that the assessor obtain Board approval for all property statements and apply non-filing penalties only when Board prescribed forms are used.

D. NON BUSINESS PROPERTY VALUATION

1. Vessel Valuation

RECOMMENDATION 12: Annually appraise pleasure boats at market value.

The assessor's staff assesses pleasure boats at their reported sales prices, in lieu of conducting a review of market values, on the lien date following their transfer. The enrolled "sales price value" may or may not approximate the market value of the boat in question. Unless an auditor-appraiser reviews a commercially produced boat valuation guide, the market value may not be enrolled. Once a value for the boat is enrolled, it is depreciated at a fixed percentage (5 percent) each subsequent year as long as the boat remains in the same ownership. This method of valuing boats approximates market value only if the resale values of boats follow this general depreciation pattern.

One method that the assessor's staff should consider is to categorize pleasure boats into two groups (new and used), with four subgroups (sailboat, inboard, outboard, and inboard/outboard) in each group. Using market data for these categories, trend factors can be computed which, when applied to all boats within each category, would either increase or decrease their values. This method will provide more accurate boat valuations than can be achieved when applying a fixed depreciation rate to all boats. We recommend that the assessor's staff formulate an approach similar to the one set forth here and implement it as soon as possible.

2. Aircraft

Section 5363 of the Revenue and Taxation Code requires the assessor to value aircraft according to Board-set standards and guides. Section 5564 requires the Board to establish such standards and guides. Prior to 1997, the Board published Assessors' Handbook section 587 as a guide, but in a Letter to County Assessors (LTA 97/03) dated January 31, 1997, assessors were notified that the Board was discontinuing the publication of this handbook section. Instead, the Board directed assessors to use the *Aircraft Bluebook Price Digest* as the "primary guide" for valuing general aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Price Digest*.

In this letter, the Board further directed that the listed retail values be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. The letter went on to state, "The value as calculated above should be adjusted for overall condition of the aircraft, equipment installed, hours since major overhaul, and airframe hours." Assessors were also "encouraged to make any other adjustments that are necessary to achieve fair market value assessments of aircraft."

Aircraft assessments we reviewed in Kings County often did not take into consideration engine hours, i.e. the assessor's staff failed to make any value adjustments for low or high engine hours.

RECOMMENDATION 13: Annually appraise aircraft at market value and make engine hour adjustments when appraising private aircraft.

Aircraft owners in Kings County receive a valuation card each year. This card informs the aircraft owner of the assessed value that is to be entered on the roll. It also requests information on any changes in condition, ownership, engine hours since last major overhaul, and situs. Unfortunately, aircraft owners in Kings County have been lax about reporting all pertinent information, including engine hours since major overhaul. Without this information, the basic aircraft value cannot be further adjusted for abnormal engine use. This adjustment can have a major impact on the value of the aircraft. In the Kings County Assessor's Office, when the aircraft owner has supplied the engine hour reading, the auditor-appraiser makes the recommended adjustment; however, when this data is not provided, the appraiser processes unadjusted values and those values are enrolled.

We recommend that Kings County staff require aircraft owners to report current engine hours and to make the proper value adjustments when valuing these aircraft.

SUGGESTION 12: Field check all aircraft for which taxpayers request a reduction in value.

Using the *Aircraft Bluebook Price Digest*, the Kings County Assessor's staff annually appraise approximately 140 aircraft. The assessor's staff uses a category in this valuation guide entitled "equipment per base average"; this category indicates the average high wholesale value for each type of aircraft. The resulting values will in all likelihood not approximate market value.

There were ten aircraft assessment reductions for the 1996-97 tax year. Out of the ten, the assessor's staff conducted only two field checks. CPTD staff reviewed these ten aircraft assessments and found that two of the ten had data supporting a reduction in value; the other eight were reduced by Kings County staff without any supporting data. CPTD staff inspected three of those eight aircraft and found that two were in good condition and did not seem to warrant a reduction in value.

We suggest that the assessor require a visual inspection of each aircraft when requests for reductions in value are made. Important information about condition, excess engine hours, and other critical facts can be obtained this way. These data are material in case of an equalization hearing.

3. Manufactured Housing

There are approximately 1,000 manufactured homes assessed in Kings County by the assessor. Most units are located in rental parks, but many are located on private land in rural areas. Manufactured homes have been on the local tax rolls since July 1, 1980. Manufactured homes are subject to local property taxation if first sold new on or after July 1, 1980 or when owners request a conversion from vehicle license fee to local property taxation.

Manufactured homes are defined in section 18007 and 18008 of the Health and Safety Code; statutes prescribing the valuation and assessment of manufactured homes are found in sections 5800 through 5842 of the Revenue and Taxation Code. Manufactured homes are classified and assessed as personal property; however, their taxable values are calculated under the same standards as real property subject to article XIII A of the State Constitution.

Processing and Valuation Procedures

The Kings County Assessor's Office assigns one appraisal aide to collect and process data provided from (1) Department of Housing and Community Development documents; (2) building permits; (3) dealer reports of sale; (4) tax clearance certificates; (5) recorded documents; (6) unrecorded contracts of sale; (7) voluntary conversions to the tax roll; and (8) other supplemental information. After all source documents are collected, the appraisal aide generates an appraisal worksheet with the pertinent documents attached. For new manufactured homes, assessment numbers are assigned with identifying codes; # 940 designates fee owners of land and manufactured homes; #910 designates manufactured homes located in a park and manufactured homes that are located on land not owned by the owner of the manufactured home. The worksheets and documents are forwarded to the real property appraisal unit and filed in the work or permit drawer for review and assessment. Manufactured homes are assigned to appraisers by work area.

New manufactured homes are usually valued by the assessor's staff at the dealer's reported selling price. If accessories are not included in the sales price they are not assessed unless flagged by a permit. Resales of manufactured homes are mainly valued by using BOE cost data and the Kelley Blue Book. No location adjustment is made in either case for those located in a manufactured home park. Assessor's staff members do not believe that manufactured home parks in Kings County influence the value of manufactured homes.

Once base year roll values have been determined by a real property appraiser, the assessment records are given to an auditor-appraiser for data entry. A depreciated value is enrolled for subsequent lien dates based on a schedule developed by the assessor's office. The schedule factors used for depreciation are derived from market sales, NADA market data, Kelley Blue Books, and local costs. The depreciated values are automatically updated and enrolled each year until a reappraisal is triggered by a change in ownership. This method of valuation is employed in lieu of a Proposition 8 review (decline in value), the assumption being that manufactured home market values are in constant decline.

SUGGESTION 13: Send a new construction questionnaire to all new manufactured home owners for identification of taxable accessories not included in dealers' sales reports.

King's County does not have a self-reporting program for manufactured home accessories. During our 1992-93 sample review of manufactured homes, escaped assessments

were discovered because accessories added after the sale (without a permit) were not reported, or were not included in dealers' sales prices reported to the county.

The value of the unassessed improvements are usually not great because they are generally limited to basic additions such as skirting, decks, and awnings; however, these items do add value and should be treated and valued as new construction unless they are associated with a manufactured home that is currently licensed.

CPTD recommends that the county assessor's office make an attempt to discover and assess all newly constructed manufactured home accessories.

RECOMMENDATION 14: Properly classify manufactured homes on the assessment roll and enroll supplemental assessments for manufactured homes when appropriate.

Classification

Our review revealed that procedures followed in the Kings County Assessor's Office for manufactured homes conform to both relevant statutes and accepted appraisal procedures, with two exceptions: (1) the assessor improperly classifies manufactured homes as real property, and (2) no supplemental assessments are made for manufactured homes.

All manufactured homes in Kings County subject to local property taxation are assessed as real property. This is not in conformance with sections of the Revenue and Taxation Code dealing with the assessment of manufactured homes. Revenue and Taxation Code section 5801 specifies that all manufactured homes with the exception of those installed on foundations pursuant to section 18551 of the Health and Safety Code be classified as personal property. Misclassification and improper enrollment can have important consequences.

The misclassification and improper enrollment has resulted in manufactured homes located in the Kaweah Water Conservation District being subject to special assessment taxes. When properly classified as personal property, no special assessment tax can be applied. We refer the reader to Letter to Assessors 92/57, and the Butte County Assessment Practices Survey, dated 1994, for detailed discussions on this subject. We recommend that the assessor's staff review the cited material and properly classify manufactured homes.

Supplemental Assessments

The assessor's staff does not enroll supplemental assessments on manufactured homes for changes in ownership or new construction. Staff enrolls any value change due to a change in ownership or new construction on the next regular (section 601) roll.

Manufactured homes are subject to supplemental assessments procedures under Revenue and Taxation Code section 75.5. Supplemental assessments are brought about by changes in ownership or completion of new construction. Revenue and Taxation Code sections

5814 and 5825 define changes in ownership and new construction, respectively, for manufactured homes. A change in ownership or new construction results in a supplemental assessment(s) for the difference between the new base year value and the taxable value on the roll. This is defined in our Letter to Assessor's 93/46, dated August 24, 1993.

We suggest that the assessor review this letter and recommend that he enroll all supplemental assessments when changes in ownership or new construction occur affecting manufactured homes.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as-needed basis for the other 47 counties. This sampling program is described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the county to be sampled.
- (2) These assessments are stratified into 18 value strata (nine secured and nine unsecured).²
- (3) From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
- (4) For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:

¹ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

² The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- a. “B” (base year) properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b. “T” (transferred) properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling..
 - c. “C” (new construction) properties. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d. “N” (non-Proposition 13) properties. Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e. “U” (unsecured) properties. Those properties on the unsecured roll.
- (3) From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum.

Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

- (6) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c. New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

- e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (7) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
- (8) The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



GEORGE J. MISNER

RECEIVED

SEP 15 1997

County Property Tax Division
State Board of Equalization
ASSESSOR

KINGS COUNTY GOVERNMENT CENTER
HANFORD, CALIFORNIA 93230
PHONE (209) 582-3211, EXT. 2488

September 10, 1997

State Board of Equalization
Mr. William B. Jackson
County Property Tax Division
450 N Street, MIC: 62 21st Floor
Sacramento, CA

Dear Mr. Jackson:

Pursuant to Section 15645 of the California Government Code, the following report represents the Assessor's response to the Assessment Practices Survey conducted by the State Board of Equalization on the 1992-93 Assessment Roll and subsequent office procedures.

The effective administration of an operation of this magnitude is vitally important to all levels of local government, as well as to the property owners of Kings County.

For this reason, I welcome an independent evaluation of the assessment practices in Kings County and am pleased to note that the survey reported that, "This indicates that its (Kings County) assessment program is substantially in compliance with the law." I was also equally pleased that Kings County was within all legal and statistical limits as required by Section 75.60 of the Revenue and Taxation Code and Section 15640 of the Government Code.

These findings can be directly attributed to the competent, dedicated staff of the Assessor's Office and to the support of the Board of Supervisors and County management.

You will note in my response to the survey report that I am in agreement with many of the State Board's recommendations; in fact, a number of them represent prior plans which we have implemented or intend to implement. With regard to those recommendations, I appreciate the support and endorsement of the State Board.

There are other proposals where I agree with the intent, but disagree with the Board's suggested solution. In these cases, I

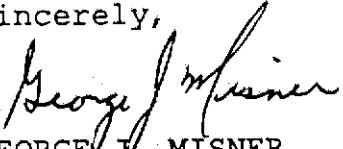
will look for alternative solutions which will achieve the intent of the recommendations.

Everyone must keep in mind that the taxpayers of California desire to have an "elected" Assessor so they can be represented when it comes to application of the cost-effectiveness of some of the bureaucratic mandates. I feel that this office stays within our constitutional requirements while applying fairness and equality. It is not my desire to ever be in conflict with any direction of the SBE but at the same time I wish to invoke the principles under which reasonable men do business.

I wish to express my appreciation to the State Board of Equalization Survey Team for the professional manner in which the survey was conducted.

And, finally, I especially want to acknowledge the employees of the Assessor's Office for their commitment to excellence. The accomplishments of the past years could not have been achieved without the dedicated efforts of the members of this office.

Sincerely,



GEORGE J. MISNER
KINGS COUNTY ASSESSOR

RECOMMENDATION 1:

Add to the nominal selling price of real property the cash equivalent amount of improvement bonds issued under the 1911, 1913, or 1915 Bonds Acts. (Page 10)

Your explanation points out that of the 13 bonds in the county the majority are of insignificant value, below a thousand dollars. The one bond you seemed to base your recommendation upon was a \$15,960 bond. The actual sales price of the property was \$186,524 which included twenty one licensed manufactured homes. The appraiser then did a current market approach on the land and an updated cost approach on the remaining improvements and enrolled \$71,000 using appraisal practices that conform to generally accepted appraisal theory. I do not believe, in this example, that this office has violated any taxpayers rights or under valued the property in question. This office will however monitor the transfers of properties subject to these bonding conditions and use the appropriate appraisal technique.

RECOMMENDATION 2:

ASSESS LANDSCAPING AS NEW CONSTRUCTION ON NEWLY CONSTRUCTED AND TRANSFERRED PROPERTIES. (Page 10)

We agree that we need to set up a tracking program and create mail out new construction questionnaires to new homeowners for identification of post sale additions.

RECOMMENDATION 3: ASSESS SUBDIVISION DEVELOPMENT COSTS AND IMPLEMENT VALUATION PROCEDURES FOR SUBDIVISION LOTS AS OUTLINED IN LETTER TO ASSESSORS NUMBER 84/51. (Page 11)

We have once again reviewed your letter 84/51, from your valuation division but we believe there may be a conflict with the direction from the SBE legal staff. (Reference letter August 24, 1994 Eric F. Eisenlauer Staff Counsel III to James Dodd Esq. Ventura County Assessor's Office)

If the new construction is not on the site, then the value of that new construction should not be included in the assessment of the site at the completion of the new construction. Only new construction on the site is assessable to the site.

This position was clearly expressed on pages 17-19 of the **Assessment Practices Survey: A report on the Assessment of Newly Constructed Property and Property Under Construction. Fall 1982.**

Therefore, I believe the SBE should re-examine its position with the Assessor Letter Number 84/51. However, whenever there is a change in ownership, then both the sale price and the assessment

should reflect any enhanced value due to the off-site construction.

RECOMMENDATION 4: INSURE THAT CONSTRUCTION PERIOD INTEREST IS INCLUDED WHEN APPRAISING LARGE COMMERCIAL AND INDUSTRIAL PROPERTIES BY THE REPLACEMENT COST METHOD. (Page 15)

It has always been and will remain, the Assessors intent to comply with the correct appraisal technique to capture the full correct value.

RECOMMENDATION 5: ENROLL SUPPLEMENTAL AND ESCAPE ASSESSMENTS FOR ALL APPLICABLE YEARS ALLOWED UNDER THE STATUTE OF LIMITATIONS. (Page 15)

Discovery in the field or from the 571 reporting procedures of items done without building permits for the most part are very minor changes that we enroll upon discovery. In almost all cases we catch them within the year the change has taken place but do not have knowledge of an exact date, therefore, there are few if any escapes to consider. In major items as the sample has found we do go back and enroll escapes and supplementals. In the minor items admittedly we are missing some non cost effective supplementals where processing and billing exceed the tax return. We will review this recommendation. Possibly the other suggestion of a construction questionnaire will help us resolve any problems.

RECOMMENDATION 6: REVISE SELECTED PROCEDURES FOR ASSESSING CALIFORNIA LAND CONSERVATION ACT PROPERTIES: (1) USING TYPICAL OR ACTUAL CROP ROTATION PRACTICES WHEN CALCULATING CROP INCOME; (2) DEDUCTING FROM GROSS RENT ALL EXPENSES THAT ARE PAID BY THE LESSOR AND DEDUCT A CAPITAL REPLACEMENT CHARGE FOR IRRIGATION WELLS THAT CONTRIBUTE TO THE INCOME; (3) REVISE ASSESSMENTS OF LIVING IMPROVEMENTS BY: (a) RECOGNIZING THAT PISTACHIO TREES DO NOT REACH MATURE PRODUCTION UNTIL AGE 20; AND (b) USE THE STRAIGHT-LINE DECLINING INCOME PREMISE WHEN CAPITALIZING INCOME FROM PISTACHIO ORCHARDS WITH TREE ROOT STOCK SUSCEPTIBLE TO VERTICILLIUM WILT. (Page 19)

This is the same program that was so highly recommended in the last survey done on Kings County. We take the administration of this program as one of our utmost concerns. We have, since the survey, instituted a new computer spread sheet program that captures all incoming data on rental summary sheets. This data can now be applied to, our up and running, ArcCad Mapping System demonstrating variations in cash rents, share rents or orchard and dairy incomes. We will continue to make refinements to assure our values reflect the correct incomes and expenses as

recommended. We will look into the appraisal of pistachio trees. Preliminary reviews show that we have no varieties which are susceptible to Verticillium Wilt.

There is also a suggestion under this section to increase risk rate components on certain properties. We have applied this where appropriate for the current role.

RECOMMENDATION 7: REVIEW AND ASSESS ALL GOVERNMENT OWNED PROPERTIES WHICH LIE OUTSIDE THEIR BOUNDARIES. (Page 23)

We will review all government owned properties to assure correct assessment. However, this office finds it extremely difficult to accept the SBE interpretation of Section 11 of the California Constitution. We believe the so-called Phillips Factors can be applied to improvements that did exist in 1966 or 1967 and had some kind of value. We don't believe that we can take a relatively new improvement and guess at what it would have been worth thirty years prior to its existence and then factor that value for comparison to its new value. We believe the comparison can only take place on property that actually existed at or prior to that referenced time frame. Unfortunately, we are unaware of any current cases where entities of this type have court challenged new improvements for determination of procedures. Lacking legal authority or recognition in these matters we will pursue with our counsel to assure we correctly assess government owned properties.

RECOMMENDATION 8:

REVISE POSSESSORY INTERESTS ASSESSMENTS BY: (1) ALLOCATING VALUE TO BOTH LAND AND IMPROVEMENTS; (2) NOT ALLOWING A VETERAN'S ORGANIZATION EXEMPTION UNLESS A CLAIM IS FILED AND PROPERLY PROCESSED; (3) ASCERTAIN THE ACCESSIBILITY OF ALL POSSESSORY INTERESTS AT THE FAIRGROUNDS; (4) REVIEW THE PROCEDURES USED FOR A NEGATIVE ASSESSMENT FOR THE TERMINATION OF A POSSESSORY INTEREST. (Page 26)

Items 1, 2, 3 under this recommendation appears, after reading the specific circumstances involved, appear to be minor and can be readily corrected. Item 4 is affected by the new regulations enacted January 1, 1997. This office has a policy to always review procedures which effect our valuation.

RECOMMENDATION 9:

USE THE RECOMMENDED EQUIPMENT INDEX FACTORS AS INSTRUCTED IN ASSESSORS' HANDBOOK SECTION 581. (Page 33)

Kings County is a homogeneous area of mostly farm areas. We do have a few large corporate accounts but nothing as compared to the metropolitan areas. We will review our use of factors to assure that we are not creating erroneous assessments while trying to maintain equity between taxpayers.

RECOMMENDATION 10:

SCREEN PROPERTY STATEMENTS MORE CLOSELY FOR PROPER SIGNATURES;
REJECT THOSE THAT DO NOT MEET REGULATORY REQUIREMENTS. (Page 34)

Review shows that some of our filings are signed by CPA's and we haven't maintained a copy of their authorization on file. We will ask the clerical division to request copies from the CPA office files.

RECOMMENDATION 11:

OBTAIN BOARD APPROVAL FOR ALL BUSINESS PROPERTY STATEMENTS; APPLY
NON-FILING PENALTIES ONLY WHEN USING BOARD PRESCRIBED FORMS.
(Page 34)

This office will adopt a policy to assure compliance with review of all forms used.

RECOMMENDATION 12:

ANNUALLY APPRAISE PLEASURE BOATS AT MARKET VALUE. (PAGE 35)

Your suggestion that we categorize boat types and refine our valuation method is a good suggestion and we will seriously look into making these changes.

RECOMMENDATION 13:

ANNUALLY APPRAISE AIRCRAFT AT MARKET VALUE AND MAKE ENGINE HOUR
ADJUSTMENTS WHEN APPRAISING PRIVATE AIRCRAFT. (Page 36)

We agree these adjustments should be made. You should be addressing the problem of how we may get the taxpayer to respond annually with that data.

RECOMMENDATION 14:

PROPERLY CLASSIFY MANUFACTURED HOMES ON THE ASSESSMENT ROLL AND
ENROLL SUPPLEMENTAL ASSESSMENTS FOR MANUFACTURED HOMES WHEN
APPROPRIATE. (Page 38)

We carry all manufactured homes on our personal property rolls for valuation and treat them as such. The problem comes with allowing homeowners exemptions and double tax payments benefits equal to the real property roll. The way the current laws are, the only way to properly handle manufactured housing would be having the funds and luxury of manpower to create a separate roll which operates differently than all existing programs within the counties. Our compromise may not be completely correct but it is as close as we can come to insure the protection of taxpayers rights and stay within our budget.

Our counsel at one time, has given us an opinion concerning supplementals, indicating that the special legislation and specific Revenue and Taxation Code sections referring to "manufactured homes" takes precedent. I believe the questions concerned Section 5812 of the R & T Code. We will review this as it is our intent to properly assess manufactured homes.